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Chilton's
OCTOBER 1985

DISTRIBUTION

FOR TRAFFIC & TRANSPORTATION DECISION MAKERS

The New World

Five Hundred Years Later, The Americas Still Beckon

Matters of Import: How Retailers Do It

Planning An International Offensive

SUSAN GARNER
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OCTOBER 1985

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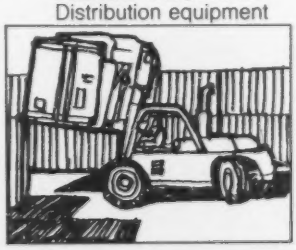
NEXT MONTH

Distribution equipment



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The responses to our June inquiry into customer service innovations suggest, if our readers are as good as their words, that we can expect to see a lot of shipper/carrier cooperation in months to come. A common perception among both parties is that communication is the key to success. But not only must we talk to each other, they say, we must listen to what the buyers of our products and services are telling us.

"Both shippers and carriers must listen to the needs of their customers. Be action-oriented; develop plans in order to meet customers' needs and serve them better. Improve internal controls and use the KISS (keep it simple, stupid) principle."**—Ronald Kennedy, corporate traffic manager, Time, Inc., New York.**

"Carriers should continue to be responsive to shippers' needs and shippers should be more aware of carrier operations."**—F. Scamardi, traffic manager, Flexible Steel Lacing Co., Downers Grove, Ill.**

"Shippers must be prepared to act immediately to customer requests. Customer demands should not be dismissed as being 'picky,' but should be responded to. Shippers must be ready to meet the customer as an equal, not as an opponent."**—S. Rombom, traffic supervisor, Izod, Ltd., New York.**

"Listen to customers and provide what is needed and what is wanted—not what you want to sell."**—Andy Johnson, MD, Commercial Studies Institute, Burlingame, Calif.**

"First, shippers and carriers must know what their customers' needs are. That involves getting out and spending time with the customers at their locations. Second, shippers and carriers must have the flexibility to take what they learn on these visits and implement it."**—Frank Van der Horst, regional distribution and warehouse manager, Coca-Cola Foods, Paw Paw, Mich.**

"Ask questions about your customers, their methods, their philosophies, needs and goals. Turn these ideals into workable actions through your carriers. Use your carriers as an extension of your own company's customer service department."**—R. H. Stacey, traffic manager, Thill, Inc., Oshkosh, Wisc.**

"Shippers and carriers must stop claiming to be service-oriented and become that way. They must arrange their schedules around the customer's needs, and not force the customer to conform to their own selfishly convenient requirements."**—Louis H. Farnung, manager of distribution services, Faberge, Inc., Raeford, N.C.**

continued

QUESTION OF THE MONTH

HOW WELL EQUIPPED?

There's currently a surge in activity with respect to new equipment and technology being introduced for transportation and distribution applications, within just about every mode. Double-stacks; new flexi-flo bulk containers; truck trailers of varying length, width and height; new loading dock and trailer door innovations; new yard equipment; truck tractors of varying ranges and sizes; the list goes on.

Just what's spurring this activity? Is it being driven by shipper or carrier demand, or are these bigger and supposedly better tools being developed by equipment manufacturers without a clear indication of a corresponding need in the market? Will it lead to true productivity and efficiency gains? Or will it just amount to higher costs for the same services?

Also, what's the current climate for capital expenditures, on the part of both the for-hire carriers that shippers are using, and on the part of the shippers themselves for their own private distribution requirements?

Here are some questions to help determine if what's being developed out there meets what's needed by equipment users, and if so, how hot the market is right now from a funding standpoint:

DIALOGUE

October 1985

- My company is currently considering capital expenditures in the following areas (check all that apply): _____trucks; _____trailers; _____rail cars; _____containers (air or ocean); _____yard equipment; _____loading dock and warehouse equipment; _____other (describe) _____
- I expect my company's capital equipment expenditures to _____increase; _____decrease; _____remain constant in '86.
- In general, with regard to equipment that I lease or buy, I am _____satisfied; _____dissatisfied with what is available.
- My dissatisfaction stems from (pick one): _____high prices; _____specs of available equipment don't meet my needs; _____lack of finance options; _____lack of service assurances.
- If I were grading, from A to F, equipment manufacturers on their ability to offer products that meet current distribution needs, these are the grades I'd give: _____tractors and chassis; _____straight trucks; _____railcars; _____intermodal chassis and trailers; _____yard equipment; _____forklifts and material handling equipment; _____air and ocean containers.
- The freight mode benefitting the most from recent equipment innovation is (pick one): _____trucking; _____rail; _____air; _____ocean; _____barge; _____intermodal.
- The freight mode which is still behind the times when it comes to equipment is (pick one); _____trucking; _____rail; _____air; _____ocean; _____intermodal.

Here's the distribution equipment technology development I'd like most to see in the remainder of the '80s:

_____

_____

_____

_____

_____

NAME (print) TITLE

COMPANY PHONE

ADDRESS

CITY STATE ZIP

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that caught the ears of *DISTRIBUTION* Editors while covering the industry meeting and seminar circuit:)

"Imports have been out of line, increasing at close to double the usual rate. This is partly because other countries have not been growing as fast (as the U.S.), but it is mostly because of the dollar which has appreciated by over forty percent in the past four years, making foreign goods a bargain.

"Restricting imports would sap the vitality of U.S. industry and restart inflation. With less foreign competition, efficiency would decrease and productivity would fall. That could lead to the deindustrialization of America. It could also aggravate the dollar problem. Import restrictions would encourage retaliation, but to the extent they were effective, the U.S. trade balance would improve and the dollar would go up, not down.

"There is no simple cure, but it is necessary to tackle the disease rather than the symptoms."—**Roy Denman, head of the Delegation of the Commission of the European Communities.**

"There must be personal driver/customer contact. Driver input of comments and suggestions is necessary."—**Stephen Frank, marketing director, Handishop Industries, Inc., Tomah, Wis.**

"Stop the paranoia created by pricing wars. Everyone forgets they're dealing with people, not just figures."—**Lynne Brown, traffic manager, Bradley Corp., Menomonee Falls, Wis.**

"Communicate! Look for better ways to get things done. The carriers must keep in mind they cannot be all things to all customers."—**B. L. Kaltenbaugh, traffic manager, Texocom, Atlanta.**

"Since shippers and carriers share common customers, it is in their best interests to work closely in a partnership to meet the needs of their customers. A close working relationship is mutually beneficial and fosters trust and confidence that leads to innovation."—**Peter B. Neydon, vp sales, Holland Motor Express, Inc., Holland, Mich.**

"There is a risk in managing a transportation/distribution system poorly. There is also a risk, perhaps a greater one, in managing it with the wrong set of management practices in mind. We must insist that excellence is not a treasured ideal, but achievable through proper management."—**Thomas L. Tanel, senior associate, Tracy-Hayden Associates, South Orange, N.J.**

"Shipper and carriers need to understand and use 'account penetration' techniques; involve more personnel at the customer level than just the sales rep. Involve warehouse managers, dispatchers, analysts."—**David L. Kirkham, materials manager, Turtle Wax, Inc., Chicago.**

"Carriers must be aware of the needs of the shippers that they service. Shippers must listen to carriers' ideas and if possible help them along. We both must work together."—**Unsigned.**

IN SEARCH OF CUSTOMER SERVICE

I have read either of the "In Search of Excellence" books	71%
have not read either of the books	29%
I agree with the basic conclusions of these books	73%
disagree	4%
I've changed the way I manage my job since reading the books	42%
have not changed	31%
Most management theories are overcomplicated	67%
disagree	19%
I plan to spend more time supporting my customers this year	85%
Most transportation companies are customer oriented	44%
disagree	46%

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INT'L PLANNING

THE GRAND SCHEME OF THINGS

'A man, a plan, a canal, Panama.' Or maybe a woman, a plan, a new market, Paraguay. Whoever and wherever, distribution helps plot the course.

By Joseph V. Barks, Editor-in-Chief,
and Cathy Coffman, Special Projects Editor

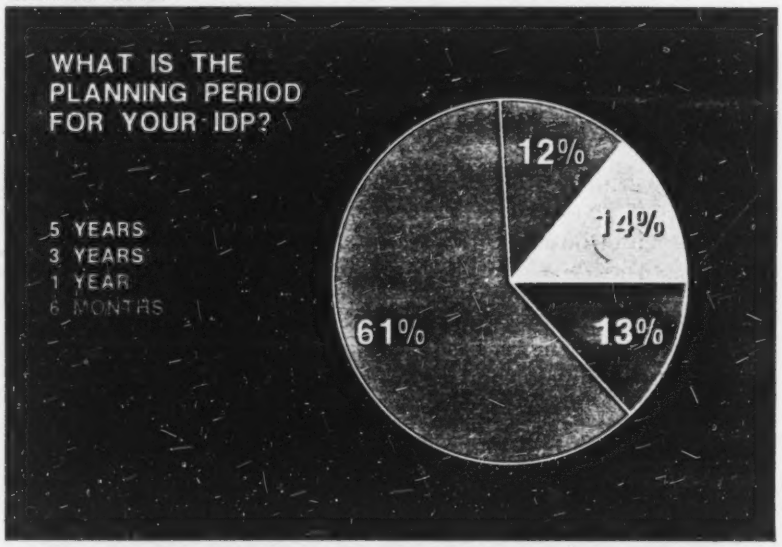
"Don't worry—I have a plan." That time-worn line is a Hollywood favorite and, depending on the script, it can either be reassuring, or reason for concern.

It's no different in the real world. The mere existence of a plan is no guarantee of success. There are plenty of places to slip up, not only during a plan's design stage, but also in the equally critical stages of implementation and "plan maintenance."

And the going gets even greasier when a plan must be fashioned for a broad, sticky area like international distribution. Clearly, it's an area that calls for the foresight and deductive powers of a Holmes, not a Clouseau.

We talked with a number of leading international "distribution detectives" to determine how they plan their attacks—and their escapes. The strategies and *modus operandi* may vary greatly, we discovered, but the objectives are always the same: Avoid surprises, and control costs with a villain's vengeance.

CHART ONE



Most respondents indicated that any International Distribution Plan (IDP) which tries to pinpoint activity for under a year's time is not sufficiently broad-minded. On the other hand, they said, plans for periods in excess of a year usually fall quickly from the realm of a useful calculation into that of a useless crapshoot.

Group Plan

Responses were well scattered on the question of whether a separate department or position is required to handle the function of international distribution plan-

continued

This article summarizes a presentation to be made at the 23rd Annual Conference of the National Council of Physical Distribution Management (NCPDM), October 27-30 in St. Louis, Mo. The presentation, "New Developments in International Distribution," will be made jointly by DISTRIBUTION Magazine and Logistics International, an international consulting firm, as part of the NCPDM tract on international distribution. Contributing to the research for this article were: Dr. Richard Lancioni, Professor of Marketing at Temple University, Philadelphia; Dr. John Gattorna, Professor of Marketing and Logistics, Macquarie University, Sydney, Australia; and Kathleen M. Milne.

ning. Some companies make no special exceptions, but instead handle the task within their corporate distribution or logistics departments. Others have broken out an international or export distribution department into which all international planning assignments fall. Still others fold planning for international distribution into broader planning chores that are executed by the international sales or marketing departments. Then there are further splits over the question of whether the planning function should be centralized at corporate headquarters, or instead broken down according to product or geographic divisions.

Whatever the set-up, planning is generally handled by at the most a handful of specialized, high-ranking managers. And there is widespread agreement (see Chart One) that any company which tries to plan international distribution out further than a year is, at best, throwing darts. Some noted that they might try their luck at one-year, three-year and five-year plans concurrently. But they usually admitted that only the one-year plan is really functional. "For international planning, five years is really too far out," said one major importer.

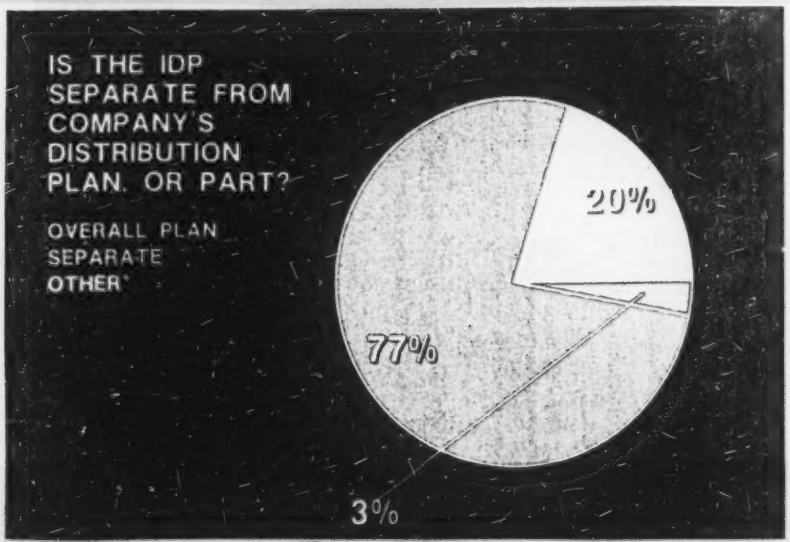
Most of our respondents indicated that they do take care (see Chart Two) to keep their international distribution plan (IDP) separate from their overall distribution plan. Beyond distribution, though, there is extensive coordination with overall corporate plans. One corporation reported, for example, that its IDP is cooked up by a committee consisting of the head of the international division, three key people from marketing, finance and production, and a representative from corporate planning.

Others reported a need to coordinate with:

- manufacturing, materials management and purchasing, because of special packaging or labeling requirements, or to eyeball projected raw materials supplies and prices, or to get a feel for supplies of parts and finished goods;
- marketing, merchandising and sales, to get a grip on forecasted volume and economic activity in a given market;
- finance, to look at the outlook for cash reserves, credit performances, and exchange rates.

When it comes to input from outside consultants or computer models, though, our respondents generally prefer to rely on internal know-how (see Chart Three).

CHART TWO



To be effective and on target, it was stressed, an IDP must be separated from a domestic distribution plan. But at the same time, it should be coordinated with plans from other areas of the company, both for international activity and corporate activity on the whole. "Other" respondents to this question included indications that the IDP was part of a marketing plan, production plan, facilities construction plan, or international marketing plan.

Foreign Factors

What goes into a plan for international distribution? The factors cited by our respondents ranked as follows, with the most important listed first:

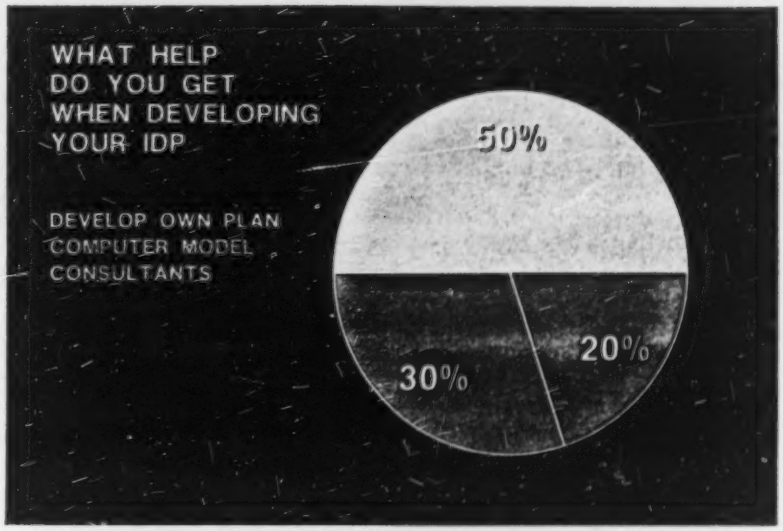
(The respondents were asked to rate each factor on a scale of 1 to 5; the number after each factor in the list represents the average rating given to each.)

- regulatory constraints in foreign markets (4.8);
- import duties (4.6);
- level of competition in foreign markets (4.6);
- reliable importers (4.4);
- preparation of documents (4.2);
- inventory levels (4.0);
- packaging (3.9);
- terms of payments (3.9);
- general transportation infrastructure in foreign markets (3.9);
- cost of transportation (3.9);
- speed and accuracy of order processing system (3.9);
- collection of payments from customers (3.8);
- standard trade and delivery terms (3.6);
- customs procedures in foreign markets (3.4);
- forecasted foreign sales company wants to achieve (3.4);
- customer support (3.4);
- warehouse and storage availability in foreign markets (3.3);
- returned goods handling (3.2);
- reliable exporters at point of origin (3.1);
- channels of distribution in foreign markets (3.1);
- materials handling capability (3.0);
- damage incidence (2.9);
- location of stock centers in foreign markets (2.8);
- type of transportation (2.7);
- alternative product supply in foreign markets (2.1);
- parts support in the companies' foreign markets (1.9);
- availability of foreign trade zones (1.8);

But deeming a factor important

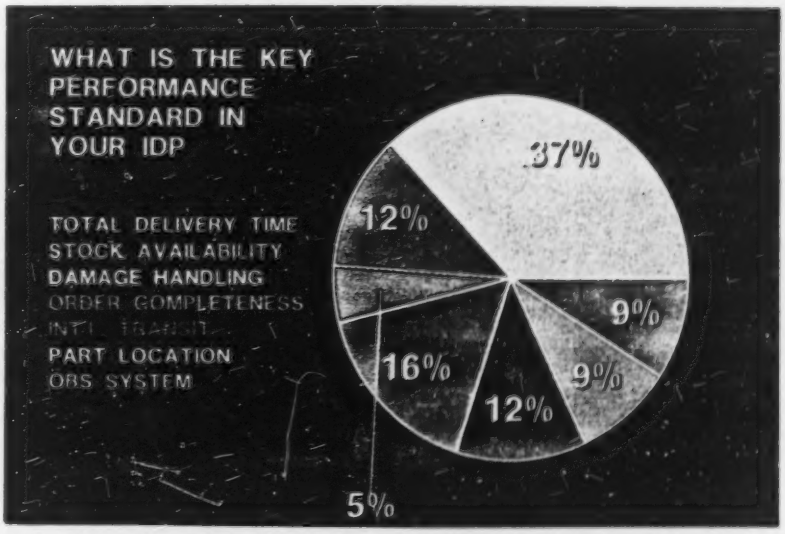
continued

CHART THREE



Rolling up the shirtsleeves is all that's really needed to fashion an effective plan, most of our respondents said; take your computers and consultants somewhere else, please.

CHART FOUR



If an IDP does anything at all for you, it was noted, it should make sure you'll be able to get product to and from originating points as required. Beyond that, you can use your plan to refine customer service and inventory performance.

is only the first step; developing performance standards to keep the important ones in line is the key, our respondents agreed. Chart Four indicates which standards are most frequently established, and tracked.

Respondents were then asked to crystal ball the major challenges they expected to face as they put together their next IDPs for the short-, medium-, and long-terms.

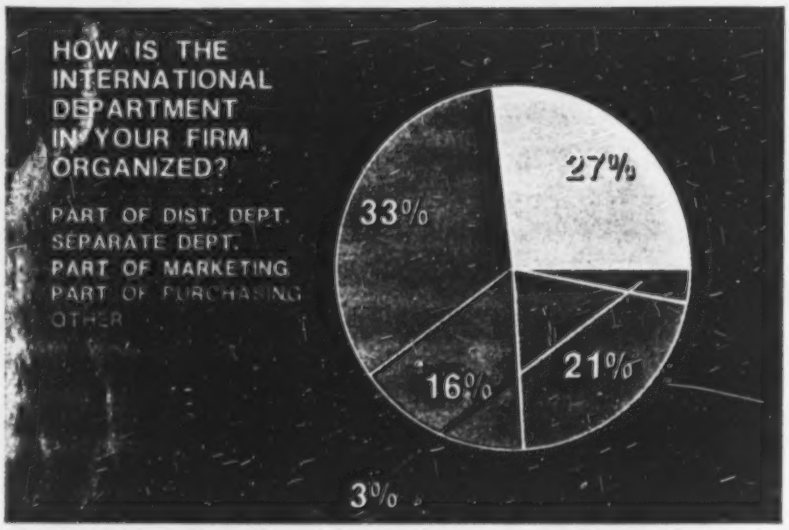
For the short term (1-2 years), these challenges were cited:

- dealing with currency problems, in particular the artificially inflated value of the U.S. dollar;
- dealing with continued intensive foreign competition, meeting competitive pricing strategies in the European market, and maintaining competitive base-cost structures with respect to manufacturing and raw materials sourcing;
- developing markets in the Third World;
- ensuring protection against market damage that could be caused by political instability in some areas;
- sorting out the ocean shipping issue of independents vs. conference members, and assuring prudent reactions to the price wars spurred by maritime overcapacity problems, to preserve high competitive levels and reasonably priced, effective container service for the long-term.
- handling the effects of a continued U.S. trade imbalance;
- working around trade barriers, quotas and other restrictions which make it difficult to market products in certain countries;
- working within the confines of the International Hazardous Materials Code, and dealing with other international packaging, shipping and documentation requirements, particularly where petroleum and chemical products are concerned;
- increasing effectiveness of order processing and customer service through computerization, to bring about better simultaneity between orders and inventories;
- obtaining satisfactory cost and service options from all international carriers.

For the medium-term period (2-4 years), anticipated challenges included:

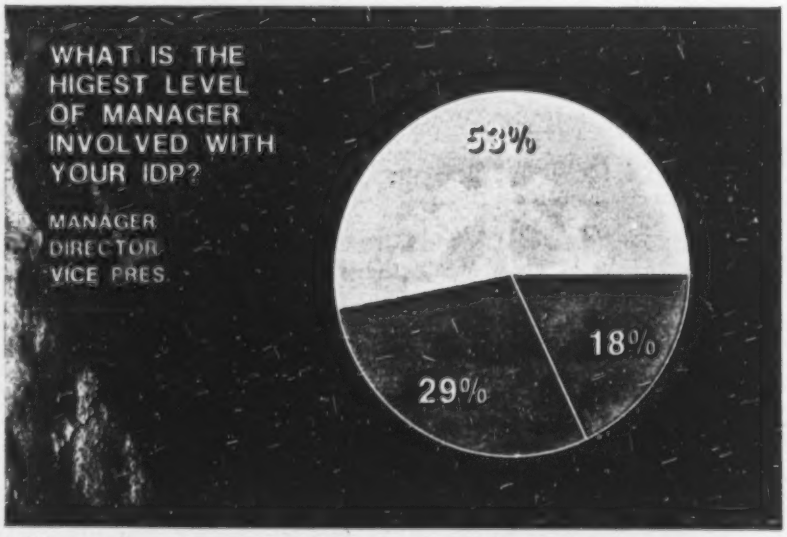
continued

CHART FIVE



More of our responding companies now isolate the international distribution function rather than have it as an appendage to a department that is primarily domestic in scope. Purchasing/materials and marketing are also exerting greater influence in the area of international distribution, too.

CHART SIX



Titles and ranks can be deceptive, particularly as a company's size and level of international activity increases. But in general, it appears that international distribution planning responsibilities still lie to a great extent with the managers who then handle the nuts-and-bolts, day-to-day execution of the plan. But international planning must eventually become a group effort, with ample support from bottom to top. As one respondent noted, "In our firm, we are all involved with international in some way."

- construction of production and assembly facilities in foreign markets;
- penetrating the Japanese markets;
- finding reliable offshore suppliers and materials sources.

For the long-term (4-10 years), these challenges were cited:

- finding appropriate partners for joint ventures;
- developing reliable transportation links at competitive costs;
- improving customer service abroad;
- competing with major foreign firms on a price basis;
- fending with the growing technological base of Third World countries such as Korea, Taiwan, Yugoslavia, etc.

More Than a Formality

Once a plan is in place, respondents agreed unanimously that some sort of review and monitoring procedures must accompany its implementation. Be it a formal review (at predetermined intervals), informal (reviewed only when problems arise), or a combination, just about every firm said it makes it a point to pull the IDP out of the file once in a while.

One respondent admitted that it's probably not the best idea to wait until it's time to put out fires. "We do a great job of constructing the plan, but forget about it until something goes wrong," he reported. Among those companies with regular, formal reviews, every quarter seems to be the most popular time frame.

How do our respondents put their IDPs into action? Most reported that they export most frequently to affiliates, although significant percentages choose to deal directly with customers, or use independent agents or distributors. Whatever the chosen course, though, just about everyone agreed that it's a good idea to let the people at the other end in on your plan, too. That's certainly something you'll never see in the movies. But it's one more precaution you'll be wise to take if you want an international plot that culminates in a gratifying, and not gruesome, climax. ★

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